Journal of International Business Studies (2004) 35, 175–200

www.jibs.net

PERSPECTIVE

New frontiers in international strategy

Joan Enric Ricart[1], Michael J Enright[2], Pankaj Ghemawat[3], Stuart L Hart[4] and Tarun Khanna[3]

[1]IESE Business School, University of Navarra, Barcelona, Spain; [2]School of Business, University of Hong Kong, Hong Kong; [3]Harvard Business School, Harvard University, Boston, USA; [4]Johnson School of Management, Cornell University, Ithaca, USA

Correspondence: JE Ricart, IESE Business School, University of Navarra, Avda. Pearson, 21, Barcelona 08034, Spain
Tel: +93 253 42 00
Fax: +93 253 43 43
E-mail: ricart@iese.edu

Abstract

This paper studies a new frontier in the understanding of International Strategy (IS). To explore it, we propose the analogy of the ecology of firms and places as a way to emphasize that the real problem is the colocation of different places with different types of firms. Locations are in fact the distinctive content of International Business Strategy. We deal with this problem with four different perspectives. First, differences across countries must be addressed with integrative frameworks able to represent the multidimensionality of 'semiglobalization', or intermediate states between total localization and total integration. Second, differences in the development of intermediary markets in a particular place influence firm positioning and industry structure in that place, but their impact also crosses different places, and it is endogenous to the ecology of places and firms in a systemic, integrative way that makes simplifications extremely risky in the design of competitive strategy in an international context. Third, places, firms, and strategies form a complex ecology that can be studied with a framework focused in understanding the geography–strategy link that incorporates different levels of analysis, new economic actors, and a set of primitives. Finally, firms around the ecology of places face the challenge of developing strategies and business models to serve the majority of humanity today excluded from world trade. It is a fundamentally different way to think about the ecology of places and firms. Overall, we present an intriguing New Frontier, with the capacity to impact both research and practice in the field of international strategy, based in understanding the interplay among firms and places.
Journal of International Business Studies (2004) **35,** 175–200.
doi:10.1057/palgrave.jibs.8400080

Keywords: international strategy; globalization; emerging markets; markets and institutions

Introduction

International business research has focused on a number of issues directly linked to firm strategy. In the 1970s and 1980s, many of the issues of interest in the strategy field, such as industry environments, market share–performance linkages, positioning and generic strategies, market and customer selection, oligopolistic strategies, and diversification, had their counterparts in the international business literature. In many cases, international business researchers addressed much the same questions as strategy researchers, with the added complexity either of studying management across multiple country operations or of performing comparative studies. In other cases, such as diversification, international business researchers focused on geographic diversification, while strategy researchers focused on industry diversification. Transaction cost theories of the firm were developed more or

Received: 17 November 2003
Revised: 10 February 2004
Accepted: 12 February 2004
Online publication date: 22 April 2004

less at the same time as transaction cost theories of the multinational firm. The same is true of knowledge-based views of the firm in the strategy field and knowledge-based views of the multinational firm in the international business literature.

In recent years, however, the field of international business appears to have focused more on the management and organization of multinational companies and less on the underlying strategies of the firms involved. Even though several recurrent themes in IB research, including the underlying rationale for the existence of multinational companies, the process of internationalization and foreign market entry, and the organization and management of multinational firms, have direct links to firms' international strategy, international business research seems increasingly to have focused on *how* multinationals do what they do, rather than *what* they do, or *why* they do it in the first place. The IB literature has accepted the strong belief that the logical response to globalization is the *multinational corporation*. International strategy was to be global strategy, a strategy developed from an MNC headquarters' point of view. The world was globalizing; companies needed to respond to globalization by arbitraging local advantages and exploiting tremendous economies of scale. Defining strategy, and especially organization, for this new beast, the global MNC was to be the key focus of the strategic agenda of international strategy.

IB research streams

Several recurrent themes can be seen in the IB literature, including the rationales for multinational firms, the process of internationalization, entry modes for international expansion, location decisions, and the management of international subsidiaries. The rationales for the emergence and existence of the multinational firm in the IB literature include the product life cycles (Vernon, 1966), oligopolistic interaction (Hymer, 1976), transaction costs for intangible assets (Buckley and Casson, 1976; Hennart, 1982; Caves, 1996), and the ability to obtain and deploy knowledge across international markets (Kogut and Zander, 1993). The internationalization process has also received attention (Johanson and Vahlne, 1977, 1990), as has the impact of the degree of internationalization on firm performance (Carpano *et al.*, 1994; Contractor *et al.*, 2003; Ruigrok and Wagner, 2003). A large literature on foreign entry modes has contrasted the performance of firms that entered new markets through acquisition, greenfield investments, joint ventures, strategic alliances, licensing, or other entry modes (Hennart, 1982; Root, 1987; Buckley and Casson, 1996, 1998 among others). A substantial portion of the international business literature focuses on the organization and management of multinational firms. Issues addressed include the control and coordination of national subsidiaries, the level of integration across national subsidiaries, and the balance between global headquarters control and autonomy of national subsidiaries (Doz and Prahalad, 1984; Gates and Egelhoff, 1986; Martinez and Jarillo, 1989, 1991; Paterson and Brock, 2002).

The relative importance of the different streams of IB research in recent years can be discerned from Werner (2002), which classifies international management research in top journals from 1996 to 2000. Of the 271 articles classified, 128 are from JIBS, with SMJ, AMJ and JoM far behind. As shown in Table 1, 144 of the papers focus on internationalization, 104 focus on multinational enterprises, and 23 focus on regulatory changes and international risk management in the global business environment. All the articles classified in the table share a focus on some aspect of international management. Comparative management studies that focus on cross-cultural differences, and studies whose focus is on non-US countries, were not included in the classification.

The international business literature with a focus on strategy shows particular patterns as well. Table 2 summarizes the results of a search of the *Journal of*

Table 1 Classification of IB research papers[a]

Internationalization	144
Pure internationalization	34
Entry mode decisions	33
International joint ventures	25
Foreign direct investment	37
International exchange	15
Multinational enterprises	104
Pure topics	16
Knowledge transfer	16
Strategic alliances and networks	18
Subsidiary–HQ relations	18
Subsidiary and multinational team management	20
Expatriate management	16
Global business environment	23
Total	271

[a]*Source*: Adapted from Werner (2002).

Table 2 Classification of IB strategy research papers: JIBS 1970–2003

Overall international strategy issues	11
Core strategy	12
Multinational enterprises	18
Organizational structure	5
Location decisions	4
Entry modes	4
Alliances and joint ventures	5
International aspects of functional strategies	22
Human resource management	9
Technology management	4
Sourcing	3
Marketing	2
Control and accounting	2
Manufacturing	1
Information management	1
Macroeconomics and political issues	11
Miscellaneous	10
Total	84

International Business Studies archives from 1970 to July 2003. The search yielded 84 papers with the word ‘strategy’ in the abstract. Of these, 27% focused either on overall international strategy issues such as configuring and coordinating international operations, linking the theory of the multinational to strategy, customer or market selection (11 papers), or on core strategy issues such as pricing strategies, generic strategies, market share–performance, and oligopolistic strategies (12 papers). The rest focused on multinational activities, on international aspects of functional strategies or on macroeconomics–political influences (see Table 2). The remaining papers formed a diverse set that included industry studies (four papers), links between strategy and mindsets or beliefs (four papers), and even publishing strategies for international business researchers (one paper) (JIBS Archive, 2003).

Whereas the IB research agenda is quite complex, the strategic framework is relatively simple. The world was seen as the equilibrium between the two streams of globalization and localization. Technological change was bringing convergence in tastes, customs, and products. However, implementation required some degree of localization to respond to local needs and cultures, as well as to benefit from local advantages, be they strong currency, low raw material costs, low labor cost, or even fiscal advantages.

In recent years, however, many forces have combined to change the face of international business. Several of these forces are loosely grouped under the rubric of ‘globalization’. These include the expansion of global finance and financial markets, the spread of knowledge facilitated by improved communication, the widespread availability and use of technology, the active expansion of multinational firms, the decoupling and decentralization of economic activities within and between firms, the blurring of nationality of multinationals, reductions in barriers to trade and investment, the increased importance and power of supranational organizations such as the European Union, and the emergence of regions and regional identities that transcend borders. Added to this list today would be the rise of electronic communities over the Internet, and the fact that nations accounting for nearly one-half of the world’s population (including China, India, South Africa, the former Eastern bloc, and the formerly import substitution driven economies of Latin America) have either entered or have dramatically changed their relationship to the world economy (Enright, 1998, 2000a). In many ways globalization has proceeded to well beyond what Levitt (1983) conceived of in his famous article on it.

On the other hand, the very importance of the forces described above has engendered countervailing dynamics as well as rethinking of IB strategy. The backlash against globalization has taken on many forms, such as the anti-globalization movement, and has forced multinational firms to confront new political as well as economic realities. At the same time, these same forces have resulted in a renewed focus on issues concerning international business and the multinational firm. Globalization has opened new potential markets as it has encouraged the rise of new competitors. Increased competition, the emergence of new locations in the international economy, and the ability of firms to decompose their activities ever more thinly has drawn renewed attention to the nature of locational advantages and disadvantages. As a result, firms are taking a new look at their international strategies.

To face the realities of the 21st century, a different paradigm is needed for relating IB and international strategy: a view of the world that goes beyond the tension between globalization and localization controlled by MNCs. Not surprisingly, one of the areas that Werner (2002) identifies for future research in IB is MNC strategies. The IB literature provides extensive knowledge about MNCs, but not much is understood about strategy formulation or how MNCs should define their strategy in a complex and rapidly evolving globalized environment.

In this perspective paper, we advance a view of the world as an ecology of locations and firms. A fine-grained categorization of firms must go beyond local firms *vs* MNC firms. We conceive of many different types: local firms, regional firms, firms that operate in a few countries, centralized firms, networks of firms, etc., with diverse characteristics and diverse sources of competitive advantage. At the same time, firms operate in places whose ecology is even more diverse than the firms themselves. IB involves the colocation of the two ecologies of places and firms.

This can be a complex view to grasp. We do not presume to have all the necessary information to do so yet, although we do have a number of approaches that are moving us in this direction, breaking the old paradigms and bringing us to new frontiers in international strategy research.

The remainder of this paper reviews four key concepts that inform the analysis of IB as an ecology of firms and locations. The polar view between localization and globalization is not sufficient. The polarity leaves out the richness and complexity inherent in the ecology of places. Semiglobalization seeks to explain puzzling underlying variations in location specificity, and therefore has a role in adding a distinctive content for international business strategy.

According to Ghemawat (2001, 2003a, b), given the interest in location specificity, the fundamental question in international business strategy is, or ought to be, 'Why do countries differ?' He notes several distinct types of dimensions along that countries may differ: cultural (religion, race, social norms, language), administrative (political and economic relationships), and geographic and economic (wealth and income). To deal with this complexity, he proposes that country differences should be studied with integrative frameworks that include bilateral and multilateral as well as indexical measures, paying particular attention to the differences that matter most in the particular industry (or industries) under consideration, and offering cross-country perspectives rather than just deep but narrow perspectives on individual countries.

Another key element in understanding different places involves the configuration of local institutions. Khanna (2002) argues that institutional voids arise in locations where specialized intermediaries on that a firm customarily relies are absent. Without the functional activity provided by these intermediaries, key strategic decisions become more difficult to make, with direct consequences for industry analysis, positioning, and sustainability – the key fundamentals of competitive strategy. Firms acting in different places need to incorporate the strategic consequences of institutional voids, thereby acknowledging inter-relations embedded in the ecology of firms and places.

The third key concept involves the need to integrate places into competitive strategy. In other words, it involves the use of the international dimension as a source of competitive advantage. This requires approaching international strategy from an integrative point of view, as proposed by Enright (2002a, b). He suggests that international business be analyzed by integrating different levels, from supranational to macro, meso, micro, and firm level. By analyzing all these levels, it should be possible to reach a better understanding of firm- and location-based advantages, essentially colocating firms and places.

The fourth and final key concept focuses on a particular application of some of these ideas, using place as an ingredient for competitive advantage. MNCs have traditionally focused on serving the top of the pyramid in underdeveloped countries. The central view was to market or apply products and capabilities that had proved useful in developed countries. However, adapting to an unfamiliar place requires a new way of thinking (Hart and Milstein, 1999; Prahalad and Hart, 2002). Learning from the difficulties encountered in serving the bottom of the pyramid can be a way to develop new, untouched markets, and a potential opportunity for disruptive innovation (Hart and Christensen, 2002).

Taken together, these concepts aim to open new research frontiers in our understanding of international strategy. Any new frontier is full of uncertainties. However, we believe that we have progressed enough to be able to highlight new directions for IB strategy scholars, managers, and companies.

Semiglobalization and strategy

Ghemawat (2003a) presents evidence indicating that most measures of cross-border market integration have scaled new heights in the last few decades, but still fall far short of economic theory's ideal of perfect integration. Ghemawat called this state of incomplete cross-border integration *semi-globalization*, and pointed out that this structural condition of intermediate levels of international integration is what affords room for international business strategy to have content that truly *is* distinctive from 'mainstream' (single-country or location) business strategy. In contrast, the polar possibility of zero cross-border integration would imply complete international segmentation of output and input markets, and strategy could presumably be set country by country, using the single-country tools and frameworks of 'mainstream' business strategy.[1] And at the other pole, with complete cross-border integration, the single-country approach would, once again, suffice: the world could simply be treated as one big country or melting pot. It is only with semiglobalization that international strategy has the potential for content distinctive from the single-country case that is the baseline for most strategic thinking.

To set the stage, it is useful to begin by parsing the field of strategy into the domains depicted in Table 3 (also discussed in more detail in Ghemawat, 2003a). Note the somewhat paradoxical character of domain 1, mainstream business strategy: by assuming total specificity, it allots the least attention to actual understanding of either business/usage specificity or location specificity. As a result, we have to look to domain 2, that of mainstream corporate strategy, for interesting analyses of variations in the extent to that key firm activities, resources or knowledge, are business-specific as opposed to generic in the sense of being fungible across businesses. And we must look to domain 3, that of international business strategy, for analyses of variations in the extent to that activities, resources, knowledge etc., are location-specific as opposed to generic in the sense of being fungible across locations. Domain 4, featuring international corporate strategy, combines considerations of business/usage specificity and location specificity. The point of Table 3, however, is not to celebrate the synthesis in domain 4 but, instead, to make it clear that location specificity is essential to the possibility of international strategy having distinctive content. The link back to semiglobalization is that with zero integration of markets across locations, location specificity would be at a maximum, and that at the other pole, with complete integration, location specificity would be at a minimum. Semiglobalization underlies subtler variations in location specificity.

There are, of course, many ways in which one might think about or study location specificity. One obvious approach parallels the fundamental question that has proved fruitful in mainstream business strategy – why do firms differ? – by asking *why countries or locations differ*. In both cases, the focus on firm differences helps differentiate the content of the strategy agenda from that of economics: from industrial organization economics in the case of mainstream business strategy and from international economics in the case of international business strategy. However, once again, the overlay of locational differences is what gives international business strategy its distinctive content. Another way of making the same point is that the overlay of locational and firm-level differences is the specific perspective that semiglobalization contributes to the 'ecology of places and firms' highlighted in the introduction to this paper.

Why, apart from the parallel with mainstream business strategy, should the question of why countries or locations differ be focused on as fundamental in international business strategy? First, it seems a sensible response to the dearth of 'big research questions' in international business that was recently flagged by Buckley (2002, 370) in his Presidential Address to the AIB:

> International business has succeeded because it has focused on, in sequence, a number of big questions, that arise from empirical developments in the world economy. The agenda is stalled because no such big question has currently been identified. This calls into question the separate existence of the subject area.

Table 3 Strategy domains[a]

Focus		*Increasing attention to business specificity/non-specificity→*	
		Single business	*Multiple businesses*
Increasing attention to location-specificity/non-specificity ↑	Multiple countries/locations	3. International business strategy	4. International corporate strategy
	Single country/location	1. (Mainstream) business strategy	2. (Mainstream) corporate strategy

[a] *Source*: Ghemawat (2003a).

While other 'big questions' can be thought of – such as discussion later in this section of why industries differ, and how that matters – the notion of variations in location specificity that underlies the question proposed here should, for the conceptual reasons discussed above, be expected to be essential to the development of *distinctive* content for international strategy.

A second and related reason for focusing on the question of why countries or locations differ is that it proves helpful in classifying many interesting strands of recent research in international business. The next few sections suggest salient examples. To simplify, the next section focuses on cross-country differences in terms of the presence or absence of specialized intermediaries, and the broader stream of work on international business of which it forms part highlights institutional differences across countries (with specialized intermediaries conceptualized in terms of varieties of institutional infrastructure). The following section, 'The primitives, levels of analysis, and international business', takes a somewhat different tack but can be seen as part of a broader research stream on regional strategies, geographic clustering, and other topics that has helped bring the geographic dimensions of the differences between countries/locations into sharper focus. The subsequent section, 'The base of the pyramid as a new frontier in international strategy', focuses attention on the (very large) differences in per capita income across countries – or to be more exact, on the very-low-income end of that continuum, because that is relatively understudied. The fundamental question of why countries or locations differ is one way of slotting these diverse research thrusts in international business into a common frame – as different ways of answering the same fundamental question. In addition, this question can help international business link to other fields of study that are tackling complementary issues, such as the cross-country corporate governance literature (e.g., Rajan and Zingales, 1998; Beck, 2001). However, the discussion of such linkages goes beyond the scope of this short essay.

The preceding discussion of why countries differ also suggests that the dimensionality of the range of differences across countries is large. Dimensionality is increased further by recognizing that the list is far from comprehensive. Efforts to extend and elaborate the known dimensions of difference across countries occupy a good chunk of the current international business research agenda, which makes some sense. However, some attention should also be allotted to the issue of how to move beyond essentially piecemeal consideration of a large number of individual dimensions of difference. Some insights into how to proceed can be inferred by focusing on implementations of the *gravity model* (primarily in international economics), the most systematic and successful class of attempts, so far, for integrating multiple dimensions of cross-border economic activity.

The gravity model in economics bears a rough resemblance to Newton's law of universal gravitation, down to having originally been proposed in the economic context by an astronomer, James Stewart. The model posits that economic interactions between two locations are directly related to the product of their economic mass and inversely related to the geographic distance between them – as well as to measures of distance along other dimensions. Fitted relationships of this sort explain one-half or even two-thirds of the variation in aggregate bilateral trade between country pairs. Gravity models have also been fitted with some success to bilateral foreign direct investment (FDI) and even cross-border equity flows. As a result, fitted gravity models have been described as supplying 'some of the clearest and most robust empirical findings in economics' (Leamer and Levinsohn, 1995, 1384).

At least in the context of trade, it is possible to offer some gravity-based assessments of the extent to that, on average, differences across countries matter for cross-border economic activity (see Table 4 for a recent analysis by Ghemawat and Mallick, 2003). The precise magnitudes of the estimated coefficients in Table 4 are interesting, but even more important are four emergent insights about how to think – and not think – about the differences across countries:

1. *Integrative frameworks*: The estimates in Table 4 are large enough and distributed broadly enough to call into question, at least from the strategic perspective, the research strategy of trying to establish that one category of differences (e.g., institutional, that currently seems to be in an ascendant phase: cf. Acemoglu *et al.*, 2002) generally trumps all the rest. Similar considerations also hint at the potential usefulness of a general framework for thinking about why countries differ as a supplement to specialized models of individual dimensions of difference. Table 5 presents the CAGE framework (see, Ghemawat, 2001, for details), which is implicit in the groupings in

Table 4 Estimated effects: a gravity model of bilateral trade[a,b]

Dimensions of distance/proximity	*Determinant*	*Change in trade*
Cultural	Common language	+42%
Administrative	Common regional trading bloc	+47%
	Colony/colonizer	+188%
	Common currency	+114%
	Differences in corruption	−11%
Geographic	Physical distance: 1% increase	−1.1%
	Physical size: 1% increase	−0.2%
	Landlockedness	−48%
	Common land border	+125%
Economic	Economic size: GDP (1% increase)	+0.8%
	Income level: GDP per capita (1% increase)	+0.7%

[a]Estimates are all significant at the 1% level but are, in many cases, smaller than those reported in previous studies, apparently because of correction for censoring.
[b]*Source*: Ghemawat and Mallick (2003).

Table 5 The CAGE Framework: Country-Level Analysis[a]

	Cultural Differences	*Administrative Differences*	*Geographic Differences*	*Economic Differences*
Bilateral Measures	• Different languages • Different ethnicities/lack of connective ethnic or social networks • Different religions • Differences in national work systems • Different values, norms and dispositions	• Lack of colonial ties • Lack of shared regional trading bloc • Lack of common currency • Different legal system • Political hostility	• Physical distance • Lack of land border • Differences in climates (and disease environment)	• Differences in consumer incomes • Differences in availability of: Natural resources Financial resources Human resources Intermediate inputs Infrastructure Information or knowledge
Unilateral Measures	• Traditionalism • Insularity • Spiritualism • Inscrutability	• Nonmarket/closed economy (home bias versus foreign bias) • Nonmembership in international organizations • Weak legal institutions/corruption • Lack of government checks and balances • Societal conflict • Political/expropriation risk	• Landlockedness • Geographic size • Geographic remoteness	• Economic size • Low per capita income • Low level of monetization • Limited infrastructure, other specialized factors

[a]*Source:* Ghemawat (2001).

Table 4. The acronym is meant to evoke the cultural, administrative/political/institutional, geographic, and economic dimensions of differences across countries. Others might further unbundle some of the CAGE categories[2] or modify or even recast them. However, it is not necessary to pass judgment on competing frameworks for thinking about why countries differ to make the point that *some* such framework for organizing thinking is likely to prove helpful.

2. *Inadequacies of indexicality*: Many of the integrative frameworks that *have* been proposed for purposes of understanding the differences across countries (or locations) presume that countries can be assessed one by one or unilaterally against a common yardstick – possibly calibrated on the basis

of the actual population distribution – to yield meaningful rankings or contrasts. Note that indexicality in this sense encompasses not only cardinal indexes such as the World Economic Forum's Global Competitiveness Indexes (formerly one, now two) or Transparency International's Corruption Perceptions Index but also ordinal ranking schemes such as Porter's 'diamond' framework for diagnosing the (relative) international competitiveness of different countries as home bases in specific industries.[3] However, the simplicity of indexicality is purchased at a price: the summarization of an entire structure in terms of a simple index number or contrast is, inevitably, Procrustean.[4] For example, the physical distance between country pairs cannot be represented in terms of country-by-country index numbers. More broadly, indexicality is inattentive to the bilateral character of many of the dimensions of difference in Tables 4 and 5, which suggests that countries be envisioned as existing in (and even occupying) multidimensional space in relation to each other instead of as an array along a common yardstick. In other words, countries should be represented as nodes in a network rather than as a heap of structurally equivalent objects.

The tendency to neglect this point about bilateral (or more broadly, relational) measures is particularly unfortunate because such measures often turn out, at least in gravity models of international trade, to exert effects that are as large as if not much larger than unilateral measures. Having made that distinction, it is useful to add that unilateral influences – that is, influences specific to individual countries rather than to country pairs – are by no means incompatible with careful consideration of the bilateral influences to which gravity models, almost by definition, draw our attention. A formal link is supplied by a unilateral measure of isolation (or integration), which captures unilateral country-specific attributes that generally decrease (or increase) a country's involvement in cross-border economic activities and that can be treated as a common component of that country's distances from other countries. For example, really isolated countries (characterized by unique, ingrown cultures, closed administrative policies, physical remoteness, etc.) can be thought of as being relatively distant from everywhere else.

3. *Industry context*: Conventional wisdom suggests that industry context has a profound impact on how much a specific type of difference across locations matters in a particular context. For example, cross-border flows of cement are more sensitive to the effects of geographic distance than cross-border flows of satellite TV programming, but less subject to cultural (as in linguistic) differences or administrative restraints due to political sensitivity. Such variation in industry attributes or context has an *enormous* influence on the content of effective international strategies in the two settings. The cement industry, unlikely though this may seem, has seen a surge in global concentration in the last 15 years that dwarfs the changes observed in what are commonly considered to be more 'global' product categories for example, automobiles) – a surge driven by a handful of international firms pursuing essentially standardized strategies around the world (Ghemawat and Thomas, 2003). In satellite television, in contrast, attempts by would-be globalizers to (re)broadcast the same content in additional countries have, in many contexts, run up against both cultural preferences for local language programming and administrative restraints, and there are both empirical and theoretical reasons to think that the balance has tilted (further) over time towards local as opposed to standardized programming in many countries owing to market growth and other dynamics (Ghemawat, 2004).

More generally, disaggregated gravity modeling confirms that such industry-level variations in the effects of given differences are important enough that they must be attended to (e.g., Head and Mayer 2000, 2002; Ghemawat and Mallick, 2003). Attention to industry contextuality helps pare down some of the complexity induced by multidimensional (point 1) and relational as well as unilateral (point 2) measures of differences among locations. And it suggests that the ways in that industries differ from each other, and how which matters, constitute another fruitfully fundamental 'big question' in international business strategy, just as they do in mainstream business strategy. In the terms used in the introduction to this paper, although the ecology of firms and locations is often discussed in a general way, applications often require that it be looked at from the perspective of specific industries because that is the level at which generalized business landscapes assume definite form. For an illustrative attempt to relate the salience of different categories of differences across countries identified by the CAGE framework to industry characteristics, see Table 6.

4. *Implications for international strategy*: In pondering the implications for firm strategy of focusing on

Table 6 The CAGE Framework: Industry-Level Analysis[a]

	Cultural Sensitivity	*Administrative Sensitivity*	*Geographic Sensitivity*[b]	*Economic Sensitivity*
Industry Characteristics	• High linguistic content (TV programming) • Local tradition/identity (ego expressive prod.) • Significant diff. in preferences (hor. diff.) idiodyncr tastes (fish sausage, boxer shorts) design difference (autos) diff. in standards (electrical appliances) diff. in sizes/packages (processed foods) diff. in target segments (boom boxes, US vs Japan) • Entrenched tastes • Home bias ('local' preferences) • +Strong country of origin effects (vertical differentiation)	• High government involvement procurement/funding (mass transportation products) regulation (healthcare) state ownership (telecoms) • Strategic industry status size (autos) votes/organization (agriculture, textiles) national security concerns (telecommunications) anointed patrimony effects (natural resources) • National patrimony effects (natural resources) • Mass consumption/staple products (food, fuel/energy) • Asset specificity and the scope for holdup (infrastructure) • Specific profit restraint on foreign competitors/opportunities	• Low value to weight/bulk (cement) • Hazards/diff. in transport • Perishability (fruit) • Importance of connectivity (fin. serv.) • Intence local supervision requirements (restaurants) • Other local perform. req. for value activities (many services)	• High intensity of labor, other factors prone to abs. cost or efficiency diff. (garments) • Potential intl. scale/ scope/experience effects • Different cycles (cement) • Diff. in willingness to pay/profitability • Income related difference in demand (automobiles) • Need for variety/ agility/responsiveness (home appliances) • Difference in suppliers/channels/ business systems (insurance)

[a]*Source:* Ghemawat (2001).
[b]Many of these conditions tend to favor FDI relative to trade.

the differences across countries or locations, it is useful to start, once again, with a parallel drawn from mainstream business strategy. The question of why firms differ is a good starting point in the mainstream context, but it is far from being a good stopping point: how those differences matter is an essential follow-up question to the extent that there is any interest in devising implications for firm international strategy. Mainstream business strategy has made some progress in this regard in recent decades because, although it takes the differences across firms seriously, it has generally managed to refrain from overemphasizing them to an extent that might push the clock back to the old days of business policy, in that firms were essentially seen as unique, and analytical attention to competitive interactions and pressures was quite limited. By analogy, international business strategy should take the differences across countries seriously, but probably not to the point of focusing on local variation to the exclusion of all else. In other words, firms that cross borders would benefit from research that goes beyond 'Never underestimate the importance of local knowledge' even if one believes that many firms could still benefit from taking local variation or knowledge more seriously than they do. Or, to use the terminology originally introduced by Pike (1954), we need 'etic' knowledge – the cross-country perspective of a detached observer – as well as 'emic' knowledge – the deep but narrow single-country perspective of a native participant.[5] Ghemawat (2003a) elaborates on some specific proposals for making progress towards the etic objective, including appropriately broad identification of variables that embody location specificity, and explicit recognition of arbitrage strategies that capitalize on the remaining differences across countries as well as strategies of adaptation or aggregation that try to cope with such differences while seeking to exploit similarities as economies of scale or scope. The arbitrage strategy, studied earlier by Kogut (1985a, b) among a few others, is reconceptualized in terms of a broader range of differences across countries and elaborated on in Ghemawat (2003b), who also discusses how it differs from adaptation/aggregation as a strategic approach.

In summary, semiglobalization is both an empirical characteristic of the level of cross-border integration of markets and an essential logic for considering the possibility of distinctive content for international business strategy. Semiglobalization underlies interesting variations in location specificity and, in parallel with mainstream business strategy's fundamental question of 'why firms differ,' directs attention to 'why countries or locations differ' as the fundamental overlay question in international business strategy. Attempts to answer this question, particularly on the basis of gravity models of international trade, suggest that the differences across countries must be addressed with integrative frameworks that go beyond indexical measures of difference to include bilateral and multilateral ones, pay explicit attention to the industry context (that suggests a third fundamental question, 'why do industries differ?'), and attempt to offer cross-country perspectives on firm strategy. The intent behind ranging so broadly in a short section has been to encourage additional discussion of and research into foundational issues in international business strategy that seem sorely understudied.

Institutional voids

In a semiglobalized context, understanding location specificity is clearly fundamental. This section develops the importance of institutional voids – defined below as the paucity of the specialized intermediaries needed to consummate transactions – as central to understanding such location specificity, and also to understanding the nature of cross-border transactions. Finally, this section makes the case that IB scholars cannot analyze the sustainability of strategies commonly discussed in the IB field without endogenizing the role, and evolution, of specialized intermediaries.

What are institutional voids?

Institutional voids occur when specialized intermediaries are absent. Intermediaries are economic entities that insert themselves *between* a potential buyer and a potential seller in an attempt to bring them together by reducing potential transaction costs (Coase, 1937; Williamson, 1985).

To appreciate the importance of this concept, consider a simple stylized market where there is no role for a specialized intermediary. Then consider adding on a variety of real-world features, each of that ensures the need for (a different kind of) intermediary.

Two individuals are engaged in a barter transaction involving the simplest possible items in an erstwhile primitive economy – a simple article of clothing in exchange for some food. The uses of the items in question are reasonably well specified: that is, there is little ambiguity about the value of the items in question. Further, the exchange has the property of simultaneous satisfaction of the wants of the two individuals. There is no role for a third party to intermediate this transaction.

(1) First, consider what happens if the exchange is subject to a time lag. That is, A has the clothing, but B promises to give the food in exchange later on. Now there is a potential need to ensure that B does not renege *ex post* and that, if this happens, there is some redress available to A. The redressing mechanism is an example of a contract guarantor that intermediates the transaction. It gives A the confidence to transact and reduces costly bargaining.
(2) Second, imagine that the items being exchanged are not simple, but require some third-party expertise in evaluating quality. For the transaction to not break down due to the classic 'lemons problem' (Akerlof, 1970), a certification mechanism is needed. This is an example of an information-providing specialized intermediary.
(3) Third, consider that A wishes to transact but cannot find B. Then, it might need the services of a different kind of information intermediary that matches potential buyers and sellers.

It is straightforward to see why, in the absence of intermediaries of the sort mentioned above, commerce will, quite simply, collapse. Thus understanding what happens when there is a paucity of specialized intermediation is fundamental to understanding all manner of commerce.

Further note that, although the language used above is that of 'goods,' it applies with equal force to all kinds of markets, including markets for talent, capital, ideas, and services. Thus talent is particularly hard to evaluate, requiring the existence of labor market intermediaries such as search firms and business schools. The patent system facilitates, at least partially, contracting on ideas. Virtually all provision of capital is subject to the temporal problem alluded to above, as it typically involves an investor giving something in return for the (uncertain) promise of a future return.

In addition to being a simple lens through that a wide variety of phenomena can be interpreted, the idea of institutional voids points to a variety of unresearched phenomena that are relevant to scholars of international business. In what follows, we shall first consider topics conventionally studied by the JIBS community – for simplicity, divided between within-country and cross-country issues – and then comment briefly on new research frontiers suggested by this lens. Note that 'country' is used as a summary expression for a geographic unit of analysis, but the reasoning applies equally to sub-national or supra-national units of analysis.

Within-country topics

Scholars of international business have long been concerned about tailoring strategies to particular contexts (Prahalad and Doz, 1987; Bartlett and Ghoshal, 1989). By viewing contexts through the lens of specialized intermediary institutions, it becomes clear that contexts will vary widely. Further, it is not difficult to imagine that the choice of that activities (Porter, 1985) to perform, and the choice of how to perform these, may be quite different if the services provided by specialized intermediaries are missing. In searching for managerial talent, for instance, companies will have to perform extensive screening of outside pools of talent, assuming they can locate and identify such a talent pool in the first instance. Raising external capital requires credibly convincing external capital providers that the funds being sought will be used in the way that is intended. This would be incredibly difficult if there were no independent auditors to certify that this was indeed so, and if there were no recourse mechanisms, such as legal adjudication, available to investors in the face of often unavoidable after-the-fact disputes. Thus the lens of specialized intermediation points inexorably to the idea of IB strategy being context dependent.

Context dependence affects both industry analysis and positioning (Porter, 1980, 1985). Porter's five-forces framework is about identifying that economic constituency – buyers of a product, suppliers, or the firms that make the product – has the greatest economic power and can thus walk away with the maximal rents. However, the way in which this division of the pie occurs depends very much on (typically unstated) assumptions with regard to specialized intermediation (Khanna, 2002). For example, for employee talent to bargain away rents, it matters whether it has access to collective representation (unions, for example). It also matters whether capital market intermediaries are present that can facilitate talent leaving and starting its own entrepreneurial venture. Thus the bargaining power of this particular (important) supplier depends crucially on these specialized intermediaries' presence or absence.

Khanna and Rivkin (2001b) have shown, in a sample of 40+ countries over a decade, that industries do not appear to be structured similarly. They base this on their demonstration that the rank order of performance (measured variously) of industries varies quite drastically from country to country. Further, it varies more when their (admittedly crude) proxies for specialized intermediaries indicate sizeable differences in context.

Similarly, positioning choices are drastically affected by the extent of specialized intermediation (see Figure 1). This is easily seen in studies of business groups in emerging economies. These studies show that diversified structures that are believed to be value-destroying in some countries (Lang and Stulz, 1993; Montgomery, 1994) are value-enhancing in others (Khanna and Palepu, 2000a; Khanna and Rivkin, 2001a). This is because the internal markets available to diversified entities are relatively more useful when specialized intermediaries are absent and the functioning of external markets is thus compromised.[6]

An extreme illustration of the dependence of positioning and sustainability on institutional voids is provided by the actions of firms catering to the world's most under-served populations in the 'base of the pyramid' (see Section 5 below). One reasonable characterization of such regions would focus on the complete absence of specialized intermediation. The hard infrastructure – roads, electricity, communications technology – is missing; so, equally insidiously, is the soft infrastructure – contract law, commercial codes, intermediaries – needed to locate possible transaction partners, and to credibly contract with. Distributing consumer products to the vast expanses of the inner reaches of the Amazon or the Mekong Delta, for example, has to rely on innovative franchising-style agreements with distributors who might bicycle over large terrains or distribute small quantities of products via waterways. It is not difficult to see that such a distribution system, itself a result of the paucity of (hard and soft) infrastructure, would be positioned quite differently than a distribution system for comparable products in a developed country. Clearly, also, the sustainability of such a position would depend on the persistence of institutional voids, an issue that is intertwined with actions taken by the firm (see comments on endogeneity of institutional voids below).

This influence of institutional voids on firms' choices appears resilient from the little evidence available so far. For example, a systematic empirical inquiry of positioning by Chilean firms suggests that the active program of market development in that country took the better part of a generation to atrophy business-group–affiliation advantages – derived from the presence of institutional voids; even so, a companion field-data-collected study demonstrated continued ability by Chile's largest business groups to continue to buck this aggregate trend and add value by compensating for institutional voids (Khanna and Palepu 1999, 2000b).[7] Anecdotal evidence having to do with attempts to eliminate institutional voids is consistent with the flavor of these studies. Perhaps the most robust of these is the difficulty experienced by scores of countries, not only underdeveloped countries, around the world to generate markets for risk capital to spur entrepreneurship.

Cross-country topics

This subsection considers the much-studied (by JIBS community and others) phenomenon of

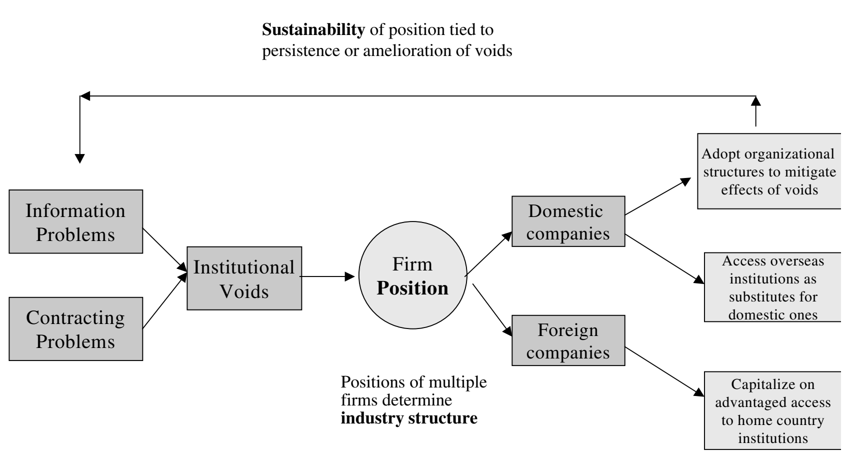

Figure 1 Firms positioning. Source: Khanna (2002).

multinationals (and the associated phenomenon of FDI). It also considers less-studied phenomena of cross-border flows of various factor inputs.

Multinationals can add value in the face of cross-border institutional voids (Foley, 2002; Khanna and Palepu, 2002). The particular institutional void thus filled might arise from the absence of executive search firms, financial analysts, a cross-border dispute resolution mechanism, or a global logistics capability. The multinational is in the business of reducing information asymmetries and guaranteeing contracts – in markets for products, talent, capital and ideas. Conceptually, in addition to the usual sources of information problems in any economy, cross-border transactions are accompanied by certain specific sources of information costs. These might arise because of cultural and language differences, for instance, or from differences in accounting standards, other (imperfectly transparent) business practices, or other differences as elaborated in Section 2. Further, the absence of a cross-border fiat authority (of the sort of a well-functioning state within a country) complicates the resolution of cross-border disputes.

Consider, for example, intellectual property rights. An entrepreneur with a path-breaking mousetrap with worldwide applicability can patent her invention under the US system, securing property rights worldwide. Even if the patentee had the resources to ensure that these property rights are respected worldwide, she would still have to contract with independent providers of a range of complementary assets. Production facilities in various countries to make the mousetrap and branding and logistics and distribution agents to disseminate the product efficiently would be needed to realize a return on the invention. On the other hand, if the multinational were the patent holder, several of these functions could be internalized.

Similarly, multinationals might serve to guarantee quality of goods and services that are moving cross-border, when alternative mechanisms to provide information about, and police quality of, such goods and services are under-developed. Samsung's brand name foreshadows its manufacturing prowess, which translates into reliability of its consumer electronics and other items commonly available around the world.

A second challenge related to the management of multinationals has to do with the extent to that multinationals should localize their business model to suit the particulars of country context. The JIBS community has studied a variant of this problem extensively by studying the resolution of the centralization/decentralization debate. That is, extensively locally sensitive business models are probably more consistent with a decentralized management structure with emphasis on local autonomy. For our purposes, this issue is isomorphic to the discussion of context dependence of strategy from the within-country issues subsection above.

Within the cross-border arena, the institutional voids lens directs us to consider questions that have been under-studied by the JIBS community. Below we discuss three categories of such questions, all necessary to understand the ecology of firms and places:

(1) With whom do multinationals compete? The conventional answer to this question is 'with each other' or 'with a local, that is, single-country firm'. However, they compete with all other ways in that there is cross-border movement of factor inputs or end products and services. The extent to that multinationals are substitutes for alternative ends to the same goal – for example, consider a US investor entrusting funds to a mutual fund that invests in Latin America, *vs* investing in a US-based multinational that then maintains operations in Latin America – depends on the configuration of cross-border institutional voids. Similarly, the 'outside option' of specialized talent employed by a multinational is to use cross-border specialized intermediaries (websites that provide information on worldwide opportunities, search firms that facilitate matching of talent with opportunity across borders, relocation agencies that accomplish the move) to ensure that her talent is used by the highest bidder even if the latter is in a remote geography.
(2) What effect do multinationals have on context? This is a question that has benefited from some discussion in the JIBS community, and has received increasing attention in the last few years (Aitken and Harrison, 1999). However, the scope for analysis is much wider than the productivity–spillover–measurement guise in that this problem is addressed.[8] Consider the effects of multinational presence on the presence of local capital market intermediaries. To the extent that multinationals, typically listed on their home country exchanges, cause trading to move offshore, the demand for services of

local analysts is lowered. This affects the viability of the business model of the analyst, and, ultimately, affects the efficiency with that the local capital market might work. One can posit mechanisms with positive externalities as well. A key issue relates to the economic engine underlying specialized intermediation and how it operates, competitively or cooperatively, with multinationals. Research on this issue will help us understand the feedback loop from multinationals to context.

(3) Moving outside the realm of multinationals, but squarely within the realm of cross-border issues, how should we understand cross-border flows of talent and people and ideas beyond simply measuring their (lack of) incidence? Understanding cross-border intermediaries will move this research agenda forward. Given the forecast magnification of cross-border movement of individuals due to demographic changes in the developed and developing world in the coming few decades, this is an issue of paramount importance. Further, another issue related to cross-border factor mobility involves the study of hot money that can also be understood as resulting from a paucity of cross-border intermediaries. The connection here is that herd behavior, of the sort that results in money flowing in or out of a country with the speed that earns it the epithet 'hot', occurs in the absence of specific information with regard to investment opportunities.

Endogenous evolution of intermediaries

Much of the literature on transaction costs has the flavor of such costs being 'given'. They are present as a result of underlying characteristics of the 'technology' (that governs exchange) in question. The institutional voids lens requires reconsideration of this conventional focus. If transaction costs result from the paucity of specialized intermediaries, and if these intermediaries can be viewed as having their own business models, it follows that the evolution of transaction costs can be understood better if we study the industrial organization of specialized intermediation. Why do the 'industries' of analysts, business schools, and executive search firms look the way they do? The endogenous emergence of specialized intermediaries, whose presence or absence is the proximate determinant of ambient transaction costs, has received much less attention than it deserves (see Spulber 1996 for some attempts in this direction).

For example, think of an executive search firm as an economic entity that helps bring together (intermediates between) supply of talent (executives) and demand for talent (firms). Notice that the intermediary is itself a firm, and has its own industry structure and its own considerations with regard to positioning and sustainability. Think, for example, of how the executive search industry is structured in the US (Khanna *et al.*, 1999). There is a premium end occupied by the likes of Russell Reynolds, Spencer Stuart and others, a more mass-market segment dominated by Korn/Ferry and Heidrick and Struggles, and an Internet-search segment with the likes of Monster.com. It turns out to be virtually impossible to think about how the possibility of efficient cross-border movement of talent will evolve without thinking through the business decisions of these specialized intermediaries.

As another example, consider an economy dominated by business groups. These groups rely on internal markets to promote new ventures, a phenomenon that is a response to the absence of external markets. However, the very existence of the groups ensures that specialized intermediaries, not seeing a demand for their services, do not enter. Thus the situation perpetuates itself. A reasonable conjecture, awaiting empirical verification, is that groups might have static efficiency gains, but dynamic efficiency losses (Khanna, 2000).

However, the emergence of intermediaries is more than just an economic issue. Consider FDI into China and India. China is characterized today by heavy investment by multinationals, India more by vibrant, domestically owned private enterprise (Huang and Khanna, 2003). Intertwined with this equilibrium outcome is the fact that the specialized intermediaries needed to disseminate risk capital to would-be entrepreneurs are far more developed in India than they are in China. In the latter, multinationals generally do not need domestic sources of risk capital as, in their role as cross-border intermediaries, they rely on cash flows from operations around the world. However, stepping away from the economics, consider why differences in such equilibria might have arisen in the first instance. The government in China has gone out of its way to lay out the welcome mat for multinationals – thus partially obviating its need to rely on domestically owned private enterprise – whereas India's government has not done so. Understanding why this is so requires understanding the incentives and ideologies of the Chinese state (at the center and in the provinces) as well as the messy coalition politics of modern India (Huang and Khanna, 2003).

The primitives, levels of analysis, and international business

International business, by definition, is about the interaction of firms and geographies. The analysis in this section mirrors Enright (2002a) in suggesting that international business research can benefit from work that focuses on the 'primitives' that drive firm- and geography-based success, introduces new economic and geographic actors to the analysis, and organizes critical research questions according to some relatively simple frameworks for analysis.

The primitives: activities, resources, and knowledge

The strategy literature makes the case that sources of advantage at the firm level are found in activities, resources, and knowledge. The activity-based view of the firm posits that firm performance is influenced by the way firms perform activities, the efficiency and effectiveness of those activities, and combinations or systems of activities (Porter, 1985, 1996). The resource-based view posits that firm performance is heavily influenced by the rents that the firm can earn from its unique stock of resources (Wernerfelt, 1984; Barney, 1986, 1991; Peteraf, 1993). The knowledge-based view posits that firm performance is influenced by the ability of the firm to create and exploit firm-specific knowledge (Spender, 1996; Nonaka and Takeuchi, 1998). Although it should be obvious that these views of the firm are not mutually exclusive, researchers in the different schools tend to downplay the importance of the others, and rarely bring the different features of the firm together into what we might call the 'ARK' view of strategy (Enright, 2002a) in that activities, resources, and knowledge are combined to create firm-based advantages (see Figure 2).

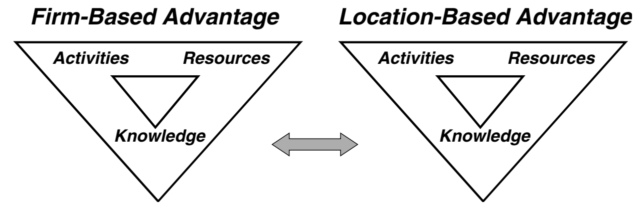

Figure 2 The 'ARK' model of firm-and location-based advantage. Source: Enright (2002a).

Similarly, the economy of a nation or region can be described as bundles of activities, resources, and knowledge bases. An activity-based view of geographies posits that there are some economic activities that might take place outside or partially outside any individual firm, but tied to a particular location. A resource-based view of geographies posits that there are resources that may be specific to particular locations rather than any individual firm. A knowledge-based view of geographies posits that there are knowledge bases that might be outside the firm that are tied to particular geographies. Just as they can provide competitive advantages to firms, activities, resources, and knowledge can provide competitive advantages to locations as well (Enright, 1998). One difference is that the activities, resources, and knowledge that are internal to a location and that might influence firm performance can be rather broad, incorporating natural conditions, institutions, mixes of firms and industries, and other features that influence location-based competitiveness. This suggests that a fruitful line of research for international business scholars is one that traces activities, resources, and knowledge, as well as their interaction, over the appropriate geographies. Of course, this leaves the question of what exactly are the appropriate geographies over that we should examine activities, resources, and knowledge that create value for business (Enright, 1998; Enright, 2002a).

The three different views of the firm also have analogs in the international business literature. An activity-based view of the multinational firm views the configuration and coordination of firm activities across nations and regions as critical to the multinational (Porter, 1986; Yip, 1995). A resource-based view of the multinational firm posits that the multinational has resources that can best be leveraged through foreign investment (Vernon, 1992; Dunning, 1993; Caves, 1996). A knowledge-based view of the multinational firm posits that the multinational firm has knowledge that it exploits across international markets (Buckley and Casson, 1976; Johanson and Vahlne, 1977; Kogut and Zander, 1993). Dunning (2000) and Doz *et al.* (2001) have begun to describe the emergence of multinational strategies that use their activities to link important geographically based sources of knowledge and resources together. However, there is still little work that explicitly tests hypotheses that link the three 'primitives' of strategy together explicitly into an 'ARK' model of the multinational firm (Enright, 2002a).

Levels of analysis

In addition to the issue of what 'primitives' might be the subject of international business research, there also is the issue of the appropriate levels of analysis. Historically, the strategy literature has emphasized the influence of industry- and firm-level features on performance. Schmalensee (1985) was the first of many researchers to decompose the variation in performance of individual business units into business segment, industry, and corporate-level effects. The literature generally concludes that all three levels have significant influences, although with varying views of the relative magnitudes of effects (Rumelt, 1991; Bowman and Helfat, 2001; McGahan and Porter, 2002; Hawawini *et al.*, 2003). Some studies in this vein use a four-digit SIC level definition of 'industry', whereas others use three- or two-digit definitions. The different definitions actually correspond to different economic entities. Whereas the four-digit level already tends to be larger than a strategically distinct industry, the three- and two-digit levels represent entire sets of related industries. Thus evidence of an 'industry' effect at the three- or two-digit levels is actually evidence of a 'meso'-level effect on performance rather than a 'micro'-level effect.

The 'meso'-level effects are very much in the spirit of recent work on regional clusters, defined as groups of localized firms in the same and related industries, including buyers, suppliers, and industries related through shared resources or activities (Enright, 1998, 2003). Whereas interest in regional clusters has mostly focused on their potential to support economic development, increasingly they are becoming a focal point for firm strategy and international business. There is increasing evidence that industry clusters influence investment decisions and firm performance (Audretsch, 2000; Dunning, 2000; Enright, 2000b). This is not surprising, given the long-recognized influence of suppliers, buyers, and spillovers from related industries on innovation and performance (von Hippel, 1988; Schmalensee, 1989). All this suggests that the 'cluster' also should be a valid level of analysis for international business researchers.

A large portion of existing international business research focuses on the nation as a unit of analysis. In addition, recent efforts in the strategy literature to decompose the variation in firm performance have tried to isolate the impact of national differences as well as firm and industry differences (Hawawini *et al.*, in press). However, distinctions among nations remain peripheral to much of the strategy literature and strategy practice (Narayanan and Fahey, 2001), which is perhaps one reason why firms seem to be blindsided by differences in markets and business practices, public policies, macroeconomics, and institutional environments.

The traditional geographic units addressed in the international business literature are national subsidiaries and markets, and global headquarters and markets (Paterson and Brock, 2002). Rugman (2000) and Rugman and Verbeke (2001), however, point out that most international trade and investment flows are within large, supranational 'regions', such as the Americas, Europe, and the Asia-Pacific, and show that many of the world's largest manufacturing and service industries are characterized by (supranational) regional rather than global production or activity systems. Reasons include the development of regional trade blocs, limits to global economies of scale, regional aggregation and scale economies, communications technologies that facilitate management on a regional basis, the need to serve customers operating on a regional basis, regional differences in customers and culture, and the 'tyranny of time zones' that facilitates management on a regional basis (Lehrer and Asakawa, 1999; Enright, in press). In addition, firm performance in a given nation is increasingly influenced by multilateral organizations, international financial flows, and the strategies of foreign multinational firms (Brewer and Young, 2000; Chia, 2000; Enright, 2000a). This indicates that there is a supranational level of analysis that also can be critical to firm performance.

The literature suggests that firm effects, industry effects, cluster effects, national effects, and supranational effects all influence firm performance. The trouble is that, in much of the strategy literature, these additional levels of analysis are not integrated into a single, organizing framework, but are used as add-ons to traditional strategy analysis. As a result, strategy research and process tend to have blind spots that become obvious only in the aftermath of financial or business crises.

An organizing framework

A useful framework for organizing this way of thinking is found in Figures 3 and 4 (Enright, 2000a, 2002b). In this framework, performance at any level of analysis is a function of drivers at five levels: firm-level drivers, industry-level drivers, cluster-level drivers, national- or regional-level drivers, and global- or supranational-level drivers. Firm-level drivers include the strategies, activities, resources, knowledge, organization, management, and governance structures of firms. Micro- or industry-level drivers include the nature of competition and cooperation in the given industry, policies that are specific to the industry, and skills and capabilities that are specific to an industry. Meso- or cluster-level drivers include inputs such as infrastructure, materials, components, and capital goods; the linkages between suppliers and buyers; the nature of local demand; spillovers from related industries; and policies designed to enhance cluster development. Macro- or national-level drivers include macroeconomic conditions, government policies at the national and regional levels, and aspects of society, including goals, interest groups, agendas, and social issues. Meta- or supranational-level drivers include international financial flows, the influence of foreign governments, the impact of multilateral agencies such as the World Trade Organization, links with other economies outside the nation, the strategies of foreign multinational firms, and (supranational) regional linkages (Enright, 2002b).

The key to using this simple approach is to recognize that, in today's economy, forces at each level influence performance at every level. Firm performance is clearly influenced by firm-level drivers, micro- or industry-level drivers, meso- or cluster-level drivers, macro- or national-level drivers, and meta- or supranational-level drivers. Macro or national economic performance is clearly influenced by supranational or meta-level drivers, meso- or cluster-level drivers, micro- or industry-level drivers, and firm-level drivers, and so on. The framework is best viewed as a set of questions that ensure that our analysis is complete, rather than as a recipe for firms or for national economies. It helps us identify the interactive forces and strategies that coevolve with technology, tastes, and competition (as in Lewin *et al.*, 1999).

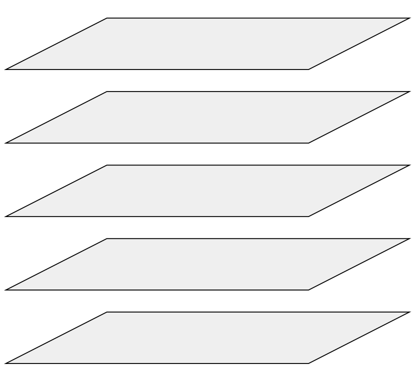

Figure 3 Levels of analysis. Source: Enright (2000a, 2002b).

Figure 4 Drivers of business and economic performance. Source: Enright (2000a, b).

Using the framework

Detailed explication of the use of this framework is beyond the scope of this paper. However, a brief example will illustrate the spirit of its use for examining firm strategies.

The emergence of Nokia, the Finnish telecommunications equipment company, is usually portrayed as a firm-based phenomenon, and *firm-level drivers* have been an extremely important part of the story. New leadership dramatically shifted Nokia's strategy, narrowing its industry scope by divesting underperforming units, revamping its positioning to that of a technology and design-driven company, overhauling its activity–resource–knowledge mix to match the strategy, and changing the financial and governance structures by opening up shareholdings to international investors. At the *industry level*, competition on standards among a limited number of lead firms has been supplemented by cooperation among some firms in standards debates, cross-licensing, alliances, and supply arrangements. At the *cluster level*, Finland exhibited early demand for mobile services, including the world's first GSM network, which helped stimulate the development of suppliers and input providers around Nokia. These developments have fostered investments in education and training both by Nokia and by authorities where it has located.

At the *macro-level*, Finnish policy that opened up competition in telecommunications paved the way for the development of Nokia's first GSM customer. Nokia also was influenced by Finland's decision to enter the EU, the macroeconomic shift in Finland in the 1990s, and national efforts to create a knowledge economy. At the *supranational or meta-level*, Nokia benefited from access to the Soviet Union for its pre-GSM businesses, the Nordic countries' decision to settle on a single mobile telecommunications standard, the subsequent European decision to select the same (GSM) standard, the opening of telecommunications markets around the world (that provided customers), and the wide penetration of GSM systems worldwide. Nokia clearly has been influenced by *firm-level drivers*, *industry- or micro-level drivers*, *cluster or meso-level drivers*, *national- or macro-level drivers*, and *supranational or meta-level drivers* (Enright, 2002b; Häikio, 2002).

A research agenda

The above discussion provides the outlines of an international business research agenda with several basic features. One is an explicit focus on levels of analysis and a focus on new economic actors. Firms and nations are not the only relevant levels of analysis; industries, clusters, subnational regional economies, and supranational regional economies also have an important influence on firm performance. It also suggests that all competition is not either national or global. There are lower and intermediate levels that are equally, and in some cases more, important.

A second feature is a focus on a given set of primitives. The present discussion suggests that a firm can be defined as the bundle of activities, resources, and knowledge that are internal to the firm, with all three being essential to firm success. Similarly, the economy of a city, region, or nation can be defined as the bundle of activities, resources, and knowledge that are internal to the location, with all three being essential to economic success.

The third feature is that a focus on firm-level drivers, industry-level drivers, cluster-level drivers, national-level drivers, and supranational drivers can provide an organizing framework for business and economic performance at all of the relevant levels. Analysis that does not encompass all these levels of analysis is bound to be incomplete. This is highlighted in other sections of this paper, which show that regional economies, national and local institutions, and national market characteristics are crucial to international strategy. The present framework shows there are many other important combinations or interactions beyond those highlighted specifically in this paper.

The payoff to the features of the present analysis will come in research that focuses on the interaction of new actors and new geographic levels of analysis. The global headquarters–national subsidiary paradigm becomes much richer when one incorporates subnational and supranational regional strategies and organizations into the analysis. The firm location decision becomes much richer when we contemplate the placement of individual activities in specific locations to take advantage of specific firm- and location-based resources and knowledge. Firm management and coordination decisions become much richer when the challenge is to coordinate learning and resource development across geographically and culturally dispersed locations in an integrated manner. Instead of providing specific answers, the value of the new framework might be in helping us organize the questions that we should ask in assessing the performance of firms, industries, clusters, and economies, in the context of the ecology of firm and places.

Base of the pyramid as a new frontier in international strategy

As the introduction to this article suggests, the conceptualization underpinning most of the work on global strategy to date has been relatively straightforward: to find the proper balance between global integration and local responsiveness (e.g., Prahalad and Doz, 1987; Bartlett and Ghoshal, 1989). Over the past two decades, we have learned that industries vary significantly with regard to this balance: global consumer products companies, for example, cannot be managed in the same way as global automobile companies. We have also learned that, within global businesses, it is important to organize key functions – R&D, operations, and marketing – in different ways to take advantage of the optimal mix of global scale and local differences in each. Furthermore, we have seen that certain industries and businesses may well be evolving toward a 'transnational' model that combines aspects of both global efficiency and local responsiveness, and takes advantage of the ability of MNCs to leverage learning across-country markets.

Significant as this work has been, however, it leaves many stones unturned in our quest for understanding the dynamics of globalization and its implications for international strategy. As the previous sections suggest, semiglobalization, institutional voids, and the existence of multiple levels of analysis offer important new lenses for framing research in international business. Each offers the potential for a more nuanced understanding of the 'ecology of places and firms' that is so important to the international business research agenda of the future.

However, even this work, important as it is, examines only what is readily visible in international markets – the 1 billion or so people at the top of the economic pyramid – while virtually ignoring the majority of the phenomenon that lurks below – the 4–5 billion people around the world living in poverty who have been largely bypassed, or even damaged, by globalization. This section, therefore, is an attempt to articulate the IB strategic logic for also focusing on the 'base of the pyramid' as an important new research frontier in international strategy.

Why the base of the pyramid?

With the fall of communism in the late 1980s, academic work on emerging market strategy (like its cousin, global strategy) experienced rapid growth, as transition economies opened their markets to foreign investment (e.g., Hoskisson *et al.*, 2000). By the late 1990s, however, corporate momentum in emerging markets had slowed considerably. The prospect for millions of new middle-class consumers in the developing world was vastly oversold. The Asian and Latin American financial crises put a damper on the rate of FDI. The events of September 11, 2002 then served to further hasten the retreat. Established markets became increasingly saturated, leaving MNCs wondering where future growth would come from (Prahalad and Hart, 2002).

In addition, there has been a rising tide of anti-globalization sentiment around the world. Demonstrations from Seattle to Cancun have made it apparent that, if corporate expansion is seen to come at the expense of the poor and the environment, it will encounter vigorous resistance. Indeed, as MNCs sought to satisfy shareholders by entering emerging markets, they increasingly heard concerns from many quarters about environmental degradation, labor exploitation, cultural hegemony, and loss of local autonomy (Hart and Christensen, 2002). The recent scandals involving major global corporations such as Enron and WorldCom have served only to fan the flames of anti-corporate sentiment.

With the benefit of hindsight, we can now see more clearly why many MNC global and emerging market strategies from the 1990s have been failures. The truth is, they were neither very global nor particularly emerging market oriented. Indeed, the vast majority of FDI over the past decade has been directed at the established markets in the developed world, particularly the US and Europe, not the emerging markets of the developing world (Sachs, 1998). Developed countries have also been the context for most international business research over the past decade (e.g., Tallman, 2001). In the developing world, most FDI has targeted only the few 'large market' countries such as China, India, and Brazil. And, even there, most MNC emerging market strategies have focused exclusively on the elite and emerging middle-class markets, ignoring the vast majority of people considered too poor to be viable customers (de Soto, 2000).

Many reasons have been offered to justify and explain MNC preoccupation with the top of the economic pyramid in emerging economies: Hitt *et al.* (2000), for example, suggest that such customers are more similar to American, European, and Japanese consumers, that MNCs are accustomed to serving, and thus present less 'psychic distance' than do the impoverished inhabitants of shantytowns and rural villages. Khanna and Palepu (1997, 2000a) point to the lack of important institutions in the developing world, that makes conventional MNC operations all but impossible. Indeed, there is a healthy literature focusing on how MNCs can address gaps in the business environment in emerging economies through the use of alliances, networks, and interpersonal ties with local players (e.g., Beamish, 1987; Peng and Luo, 2000; Khanna and Rivkin, 2001a).

Unfortunately, MNC strategies aimed at tailoring existing products to better fit the needs of the elites and rising middle classes in the developing world have inadvertently resulted in a form of 'corporate imperialism' (Prahalad and Lieberthal, 1998). The incremental design changes and cost reductions associated with this strategy have not succeeded in making products and services available to the mass markets in the developing world (Arnold and Quelch, 1998). The net result is that four billion people at the bottom of the economic pyramid – fully two-thirds of humanity – have been largely ignored both by MNCs and by IB researchers. They have been bypassed by globalization, their needs are being poorly met by local vendors, and they are increasingly the victims of corruption and active exploitation (Chambers, 1997).

With stagnation in the established markets of the world economy and rising anti-globalization sentiments, however, the opportunities for entering the base of the pyramid are becoming increasingly attractive to both managers and scholars. GDP per capita figures fail to capture the dynamism that exists among the aspiring poor. Indeed, it is estimated that well over half of total economic activity in the developing world takes place outside of the formal economy, in the so-called 'extra-legal' sector: this translates into more than $9 trillion in hidden (unregistered) assets among the world's poor (de Soto, 2000).

In short, the emerging market opportunity may be much larger than thought previously. However, the new untapped source of market promise is not the wealthy few in the developing world, or even the rising middle-class consumers – it is the billions of aspiring poor who are joining the market economy for the first time (Prahalad and Hart, 2002). However, capturing the opportunity at the base of the economic pyramid will, in all likelihood, require radical innovations in strategic thinking. Indeed, as Dawar and Chattopadhyay (2002) observe, it makes little sense for MNCs to develop homogeneous country strategies in emerging markets (e.g., China strategy). Instead, it would be far more appropriate to craft *separate* strategies for the wealthy, rising middle class, and for poor customers, *across*-country markets (Hart and Milstein, 1999). Thus the base of the pyramid is virtually uncharted territory and opens up an entirely new field of inquiry for the JIBS community.

Base of the pyramid: a new IB research priority

For the past 5 years, a group of IB scholars[9] has begun to pursue this research trajectory. Early work (e.g., Hart and Milstein, 1999; Christensen *et al.*, 2001; Hart and Christensen, 2002; Prahalad and Hammond, 2002; Prahalad and Hart, 2002) focused on articulating the strategic logic for pursing business strategies aimed at the four billion poor at the base of the pyramid. In 2000, the group of colleagues at the University of North Carolina's Kenan-Flagler Business School created the Base of the Pyramid (BOP) Learning Laboratory. The BOP Learning Lab is a consortium of companies, NGOs, and academics interested in identifying, evaluating, and quantifying the critical parameters and interdependences that govern these market segments and that translate into strategies for value creation.[10]

In 2002, the UNC group won a 3-year research grant from the National Science Foundation to conduct a longitudinal study of BOP ventures being pursued by the MNC members of the Learning Lab (Milstein and Hart, 2002). As part of this effort, over 30 cases have already been produced detailing the strategies and business models of ventures focused on the BOP. These include local companies and non-profits as well as MNC initiatives. Early findings from this work have now been summarized and placed in the context of the literatures on global and emerging market strategy (e.g., London and Hart, 2003).

Some tentative conclusions, based largely upon interviews, case-comparative analyses, and grounded theory building, include the following:

(1) Incremental adaptation of existing technologies and products is not effective in the BOP. Successful entry into the BOP appears to require a new approach to product development based upon deep listening and codevelopment with local partners.
(2) The BOP forces MNCs to rethink business models fundamentally. Companies apparently

need to transform their understanding of scale, from 'bigger is better' to a strategy of distributed small-scale operations married to world-scale capabilities such R&D and learning transfer.

(3) The BOP also appears to demand a business model premised upon capital efficiency and employment intensity rather than the conventional MNC mentality of capital intensity and labor efficiency.
(4) Given the small-scale and distributed nature of BOP ventures, it appears to be important to build relationships with local governments, small entrepreneurs and non-profits rather than depend upon familiar partners such as central governments and large local companies.
(5) Building relationships directly and at the local level contributes to the social capital necessary to overcome the lack of formal institutions such as intellectual property rights and the rule of law.
(6) As the BOP possesses neither the institutional inertia nor the incumbent density that exists at the top of the pyramid, it appears to offer the ideal conditions for incubating new, leapfrog technologies.
(7) The base of the pyramid appears to be especially appropriate for disruptive technologies that dramatically reduce environmental footprint and increase social benefit (e.g., renewable energy, distributed generation, micro-credit, wireless IT, biotechnology), given the large populations involved.
(8) Business models forged successfully at the base of the pyramid have the potential to travel profitably to higher income markets, offering huge growth potential. It appears to be easier to add cost and features to a low-cost business model than to remove cost and features from a high-cost business model.

The early work in this new domain confirms the initial assumptions that the base of the pyramid contains fundamentally new challenges for the field of international strategy, and that we have only scratched the surface. Indeed, widening the strategic bandwidth to include the base of the pyramid appears to have significant implications for global and emerging market strategy, innovation theory, and theories of economic development and comparative advantage.

As we have seen, the BOP highlights significant limitations in current thinking with regard to global and emerging market strategy. Indeed, attempts to leverage existing MNC capabilities in global integration or local responsiveness appear to be wholly inadequate when entering the BOP space, suggesting the need for new capability development (London and Hart, 2003). Further, as the BOP carries with it new and challenging constraints (e.g., the need for dramatically lower cost structures, a smaller environmental footprint, difficult physical conditions, different cultural traditions), it might not only help to expand our thinking about global and emerging market strategy, but also enrich our understanding about the nature of lead markets in the innovation process. Rather than focusing exclusively on the most sophisticated customers as the lead markets (e.g., von Hippel, 1988), it might also be productive to focus on the poorest and least sophisticated customers as incubators of the innovation process. In fact, establishing positions in BOP markets may turn out to be crucial to long-term competitive survival in the coming decades as top-of-the-pyramid markets become increasingly saturated (Hart and Christensen, 2002; Prahalad and Hart, 2002).

With regard to economic development theory, the unique and disruptive character of BOP markets could help to reframe the current thinking with regard to comparative advantage, where developing countries must follow a predictable course of commodity production, labor cost, and assembly platform strategies before making the leap to technology- and knowledge-based capabilities (Easterly, 2002). Indeed, the BOP could serve as an incubator for entirely new and globally competitive enterprises and industries, with developing country companies leading the way. This could provide a new lens for thinking about national economic development strategy (Christensen *et al.*, 2001).

Some specific research questions with regard to the implications of the BOP for MNC strategy include the following:

(1) Can MNCs effectively serve the bottom of the pyramid? Can they overcome lack of familiarity with these contexts and their liability of foreignness? Can they design business models that compensate for the lack of institutions such as IP protection and the rule of law and avoid the corrosive effects of corruption?
(2) Can MNCs design profitable strategies and business models to serve the BOP? What are the implications for structure/governance, alliances and partnerships, technology and product

development, supply chain and distribution, and knowledge transfer?

(3) Can MNCs grow and make money while simultaneously catalyzing sustainable development? Can corporations serve as agents of poverty alleviation, environmental restoration, and world betterment while simultaneously developing entirely new and profitable markets?

Looking forward

As we enter the 21st century, the institutions of global capitalism find themselves increasingly under siege. Following the fall of communism in the late 1980s, a decade of economic globalization, privatization, and free trade has produced mixed results at best. While developed countries have grown richer, the vast majority of nations and people in the world have not benefited from the apparent triumph of global capitalism. Furthermore, the underlying natural systems supporting human economies – forests, fisheries, soils, ecosystems, and climate – have all experienced continuing decline. A rising tide of 'anti-globalization' has emerged that combines concerns about environmental degradation, inequity, human rights, and loss of local autonomy. And terrorism – the ultimate form of anti-globalization – is on the rise, driven by poverty, hopelessness, and desperation.

In many ways, global capitalism – and IB research – find themselves at a crossroads. Continuing to focus exclusively on the 800 million consumers at the top of the pyramid appears to lead only to oblivion: it can produce neither the market growth nor the societal legitimacy required for the economic globalization process to continue to thrive. Through a new focus on the base of the economic pyramid, however, global capitalism has the opportunity to bring the benefits of the market system to the entire human community of 6.2 billion in a way that respects both cultural diversity and the environment. Indeed, the BOP offers firms the opportunity to design entirely new strategies that address simultaneously the growing opposition to globalization and the limitations associated with the global environment.

From an academic perspective, we know very little about how to formulate and implement successful international strategies focused on the base of the pyramid. Indeed, the BOP offers a host of new and important research questions and contexts that have the potential to add greatly to our understanding of the ecology of firms and places so important to the field of international strategy. It is time that we, as a community of scholars, got on with the research needed to move this agenda forward.

Conclusions

This paper has presented several perspectives to open a new frontier in the understanding of international strategy. To explore it, we have proposed the analogy of the ecology of firms and places as a way to emphasize that the real problem is the colocation of different places with different types of firm. Locations are in fact the distinctive content of international business strategy. The fundamental overarching question, therefore, is 'why do countries or location differ?'

Answering this question is fundamental. However, differences across countries must be addressed with integrative frameworks that go beyond unilateral measures of difference, pay implicit attention to industry content, and draw out implications for firm strategy, so as to shed light on this fundamental issue in international business strategy. The proposed concept of 'semiglobalization' and the CAGE model are important steps in this direction.

However, understanding places is very complex. Differences in the development of intermediary markets in a particular place influence firm positioning and industry structure in that place. Furthermore, the impact of institutional voids crosses different places as alternative firm organizations compete to take advantage of these differences. The evolution of these intermediary markets is then endogenous to the ecology of places and firms in a systemic, integrative way that makes simplifications extremely risky in the design of competitive strategy in an international context. In fact, it is impossible to discuss the efficient cross-border movement of talent, people, or ideas without thinking through the business decisions of these specialized intermediaries.

Places, firms, and strategies form a complex ecology. Multilateral measures of difference, interrelated with intermediary markets, make the 'real' geography of places extremely difficult to understand and use in competitive strategy. The proposed framework to understand the geography–strategy link incorporates different levels of analysis, new economic actors, and a set of primitives (activities, resources, and knowledge), and focuses on the key drivers of economic performance at all relevant levels.

Finally, firms around the ecology of places, and we as scholars in IB, face the great challenge of bringing prosperity everywhere and not just to a small privileged group. It is the challenge of developing strategies and business models to serve the majority of humanity that is currently excluded from world trade. It is the challenge of doing so in a profitable way but also in a way that is socially and environmentally feasible given limited world resources. It is a fundamentally different way of thinking about the ecology of places and firms: changing firms to impact on places in a great transformation for the future.

Moving forward with this research agenda represents major challenges and research opportunities. Neither does this agenda represent the only frontier that IB scholars need to explore. However, we believe that it is a most intriguing one, with the capacity to impact on both research and management practice. In this perspective paper, we have advanced a view of the world as an ecology of locations and firms as a way of exploring the essential differentiating element in international strategy.

Acknowledgements

This paper is based on a panel at the First Annual Conference on Emerging Research Frontiers in International Business Studies, organized by the *Journal of International Business Studies* (JIBS), to discuss several new lines of research in international strategy. Each panelist took particular responsibility to write his corresponding section. Excluding the introduction and conclusions, the order of authorship is P Ghemawat, T Khanna, M Enright, and S Hart. We wish to acknowledge the insightful guidance of A Lewin in the developments of this paper. The support of the 'Anselmo Rubiralta' Center for Globalization and Strategy is highly appreciated.

Notes

[1]Admittedly, at this polar extreme there would still be room for interesting cross-country comparative research aimed at correcting for the US-centric approach that continues to pervade most 'mainstream' strategic thinking. However, such research should properly be classified as a contribution to single-country strategy: that is, domains 1 or 2 of the matrix in Table 3, rather than domains 3 or 4.

[2]If pressed to unbundle the CAGE framework further, it would probably involve splitting the administrative category into institutional precommitments, government policies and interest group politics/political preferences that have the power to influence policies over time. It would also be necessary to elaborate further on variations in the usage specificity of the relevant economic factors, inputs, infrastructure, etc.

[3]Porter's diamond framework does afford more degrees of freedom than, for example, the Global Competitiveness Index because of its industry specificity, the attractions of which are discussed below. However, the point about indexicality continues to apply to the diamond framework, given its focus on competitiveness without systematic attention to the variations in distance, along various dimensions, between countries.

[4]For a somewhat more extended discussion of indexicality in a broader social science context, see Abbott (2001), especially pp 11–12 and Chapter 6.

[5]According to Pike: 'The etic view is cross-cultural in that its units are derived by comparing many systems and by abstracting from them units that are synthesized into a single scheme that is then analytically applied as a single system. The emic view is monocultural with its units derived from the internal functional relations of only one individual or culture at a time.'

[6]Whereas one can posit conceptual links between institutional voids and sustainability, we know of no formal work that establishes whether positions are sustained for differentially long periods based on ambient institutional voids.

[7]The field study also reached similar conclusions about Indian business groups during the several years following deregulation of cross-border activity (1991–1997).

[8]Outside the realm of economic reasoning that informs this section, the issue of effects of multinationals is one that continues to receive much attention. For example, do multinationals compromise national sovereignty? Do multinationals crowd out local culture? and so on

[9]Including CK Prahalad (University of Michigan), C Christensen (Harvard Business School), MA Rodríguez (IESE Business School), S Sharma (Wilfrid Laurier University), A Hammond (World Resources Institute), I Gomez and N Guttierez (Tec Monterrey), and J Johnson, T London, M Milstein, E Simanis, and L Jones (University of North Carolina).

[10]The BOP Learning Lab's contributing members include DuPont, HP, J&J, P&G, SC Johnson, Ford, Dow, Coke, and Tetrapak. Non-profit organizations such as the Grameen Foundation and the World Resources Institute are also actively involved.

References

Abbott, A.D. (2001) *Chaos of Disciplines*, University of Chicago Press: Chicago.

Acemoglu, D., Johnson, S. and Robinson, J.A. (2002) 'Reversal of fortune: geography and institutions in the making of the modern world income distribution', *Quarterly Journal of Economics* **117**(4): 1231–1294.

Aitken, B.J. and Harrison, A.E. (1999) 'Do domestic firms benefit from direct foreign investment?', *Evidence from Venezuela. American Economic Review* **89**(3): 605–618.

Akerlof, G. (1970) 'The market for lemons: quality uncertainty and the market mechanism', *Quarterly Journal of Economics* **84**(3): 488–500.

Arnold, D. and Quelch, J. (1998) 'New strategies in emerging markets', *Sloan Management Review* **40**(1): 7–20.

Audretsch, D.B. (2000) 'Knowledge, Globalization, and Regions: An Economist's Perspective', in Dunning JH (ed.) *Regions, Globalization, and the Knowledge-Based Economy*, Oxford University Press: Oxford, pp: 63–81.

Barney, J. (1986) 'Strategic factor markets: expectations, luck, and business strategy', *Management Science* **32**(10): 1231–1241.

Barney, J. (1991) 'Firm resources and sustained competitive advantage', *Journal of Management* **17**(1): 99–120.

Bartlett and Ghoshal (1989) *Managing Across Borders*, HBS Press: Boston.

Beamish, P. (1987) 'Joint ventures in LDCs: partner selection and performance', *Management International Review* **27**(1): 23–37.

Beck, T. (2001) *Financial Dependence and International Trade*, (www. document) World Bank Working Paper No. 2609 http://econ.worldbank.org/files/2201_wps2609.pdf (Accessed September 30, 2003).

Bowman, E.H. and Helfat, C. (2001) 'Does corporate strategy matter?', *Strategic Management Journal* **20**(7): 625–636.

Brewer, T.L. and Young, S. (2000) 'The World Trade Organization: Global Rule-Maker?', in N. Hood and S. Young (eds.) *The Globalization of Multinational Enterprise Activity and Economic Development*, Macmillan: London, pp: 251–277.

Buckley, P.J. (2002) 'Is the international business research agenda running out of steam?', *Journal of International Business Studies* **33**(2): 365–373.

Buckley, P.J. and Casson, M.C. (1976) *The Future of the Multinational Enterprise*, Holmes and Meier Publishers: New York.

Buckley, P.J. and Casson, M.C. (1996) 'An economic model of international joint venture strategy', *Journal of International Business Studies* **27**(5): 849–876.

Buckley, P.J. and Casson, M.C. (1998) 'Analyzing foreign market entry strategies: extending the internalization approach', *Journal of International Business Studies* **29**(3): 539–561.

Carpano, C., Chrisman, J.J. and Roth, K. (1994) 'International strategy and environment: an assessment of the performance relationship', *Journal of International Business Studies* **25**(3): 639–656.

Caves, R.E. (1996) *Multinational Enterprise and Economic Analysis*, 2nd edn, Cambridge University Press: Cambridge.

Chambers, R. (1997) *Whose Reality Counts? Putting the First Last*, ITDG Publishing: London.

Chia, S.Y. (2000) 'Singapore: destination for multinationals', in J.H. Dunning (ed.) *Regions, Globalization, and the Knowledge-Based Economy*, Oxford University Press: Oxford, pp: 364–380.

Christensen, C., Craig, T. and Hart, S. (2001) 'The great disruption', *Foreign Affairs* **80**(2): 80–95.

Coase, R. (1937) 'The nature of the firm', *Economica* **4**: 386–405.

Contractor, F.J., Kundu, S.K. and Hsu, C.-C. (2003) 'A three-stage theory of international expansion: the link between multinationality and performance in the service sector', *Journal of International Business Studies* **34**(1): 5–18.

Dawar, N. and Chattopadhyay, A. (2002) 'Rethinking marketing programs for emerging markets', *Long Range Planning* **35**: 457–474.

De, Soto H. (2000) *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Basic Books: New York.

Doz, Y. and Prahalad, C.K. (1984) 'Patterns of strategic control within multinational corporations', *Journal of International Business Studies* **15**(2): 55–72.

Doz, Y., Santos, J. and Williamson, P. (2001) *From Global to Metanational*, Harvard Business School Press: Boston.

Dunning, J.H. (1993) *Multinational Enterprises and the Global Economy*, Reading, MA: Addison-Wesley.

Dunning, J.H. (2000) 'Regions, Globalization, and the Knowledge Economy: The Issues Stated', in J.H. Dunning (ed.) *Regions, Globalization, and the Knowledge-Based Economy*, Oxford University Press: Oxford, pp: 7–41.

Easterly, W. (2002) *The Elusive Quest for Growth*, MIT Press: Cambridge, MA.

Enright, M.J. (1998) 'Regional Clusters and Firm Strategy', in A.D. Chandler Jr., Ö. Sölvell and P. Hagström (eds.) *The Dynamic Firm: The Role of Technology, Strategy, Organization, and Regions*, Oxford University Press: Oxford, pp: 315–342.

Enright, M.J. (2000a) 'Globalization, Regionalization, and the Knowledge-Based Economy in Hong Kong', in J.H. Dunning (ed.) *Regions, Globalization, and the Knowledge-Based Economy*, Oxford University Press: Oxford, pp: 381–406.

Enright, M.J. (2000b) 'Regional clusters and multinational enterprise: independence, dependence, or interdependence?', *International Studies of Management and Organization* **30**(2): 114–138.

Enright, M.J. (2002a) 'Geographies and international business: a three dimensional approach', paper delivered at the Academy of International Business Conference, San Juan.

Enright, M.J. (2002b) *Strategy for the New Millennium*, Manuscript. Hong Kong Institute for Economics and Business Strategy.

Enright, M.J. (2003) 'Regional Clusters: What we Know and What we Should Know', in J. Bröcker, D. Dohse and R. Soltwedel (eds.) *Innovation Clusters and Interregional Competition*, Springer-Verlag: Berlin, pp: 99–129.

Enright, M.J. (in press), 'Regional management centers in the Asia-Pacific', *Management International Review*.

Foley, F. (2002) 'The effects of having an American parent: an analysis of the growth of US Multinational Affiliates', Business Economics Ph.D. dissertation, Harvard Business School, Chapter 1.

Gates, S.R. and Egelhoff, W.G. (1986) 'Centralization in headquarters–subsidiary relationships', *Journal of International Business Studies* **17**(2): 71–92.

Ghemawat, P. (2001) 'Distance still matters: the hard reality of global expansion', *Harvard Business Review* **79**(8): 137–147.

Ghemawat, P. (2003a) 'Semiglobalization and international business strategy', *Journal of International Business Studies* **34**(2): 138–152.

Ghemawat, P. (2003b) 'The forgotten strategy', *Harvard Business Review* **81**(11): 76–84.

Ghemawat, P. and Mallick, R. (2003) *'The Industry-Level Structure of International Trade Networks: A Gravity-Based Approach'*, HBS Working Paper, February 2003 version.

Ghemawat, P. and Thomas, C. (2003) *Identifying the Sources of Sustained Performance Differences: A Study of International Cement Industry*, HBS Working Paper, September 15, 2003 version.

Ghemawat, P. (2004) 'Global Standardization vs. Localization: A Case Study and a Model', in J.A. Quelch and R. Deshpande, (eds.) *The Global Market: Developing a Strategy to Manage across Borders*, Jossey-Bass: New York, Chapter 8.

Häikio, M. (2002) *Nokia: The Inside Story*, Pearson Education: London.

Hart, S. and Christensen, C. (2002) 'The great leap: driving innovation from the base of the pyramid', *Sloan Management Review* **44**(1): 51–56.

Hart, S. and Milstein, M. (1999) 'Global sustainability and the creative destruction of industries', *Sloan Management Review* **41**(1): 23–33.

Hawawini, G., Subramanian, V. and Verdin, P. (2003) 'Is performance driven by industry- or firm-specific factors? A new look at the evidence', *Strategic Management Journal* **24**(1): 1–16.

Hawawini, G., Subramanian, V. and Verdin, P. (in press),' The relative importance of country, industry and firm effects on firm performance', *Journal of World Business*.

Head, K. and Mayer, T. (2000) 'Non-Europe: the magnitude and causes of market fragmentation in the EU', *Weltwirtschaftliches Archiv-Review of World Economics* **136**(2): 284–314.

Head, K. and Mayer, T. (2002) 'Effet frontière, intégration economique et 'Forteresse Europe' (Border effect, economic integration and 'Fortress Europe'. with English summary)', *Economie and Prévision* **(152–153)**(1–2): 71–92.

Hennart, J.F. (1982) *A Theory of Multinational Enterprise*, University of Michigan Press: Ann Arbor.

Hitt, M., Dacin, M., Levitas, E., Arregle, J.-L. and Borza, A. (2000) 'Partner selection in emerging and developed market contexts: resource-based and organizational learning perspectives', *Academy of Management Journal* **43**(3): 449–467.

Hoskisson, R., Eden, L., Lau, C. and Wright, M. (2000) 'Strategy in emerging economies', *Academy of Management Journal* **43**(3): 249–267.

Huang, Y. and Khanna, T. (2003) 'Can India overtake China?', *Foreign Policy*, Washington, Jul/Aug 2003, pp. 74–81.

Hymer, S. (1976) *The International Operations of National Firms: A Study of Direct Foreign Investment*, MIT Press: Cambridge, MA.

JIBS Archive (2003) [www. document] URL: http://www.palgrave-journals.com/dynasearch/app/dynasearch.taf?site_source=jibs. (Accessed: 23 July 2003).

Johanson, J. and Vahlne, J.E. (1977) 'The internationalization process of the firm: a model of knowledge development and increasing foreign market commitments', *Journal of International Business Studies* **8**(1): 23–32.

Johanson, J. and Vahlne, J.E. (1990) 'The mechanism of internationalization', *International Marketing Review* **7**(4): 11–24.

Khanna, T. (2000) 'Business groups and social welfare in emerging markets: existing evidence and unanswered questions', *European Economic Review* **44**: 748–761.

Khanna, T. (2002) *Local Institutions and Global Strategy*, Harvard Business School: Boston, Harvard Business School Note No. 702-475.

Khanna, T., Khurana, R. and Palepu, K. (1999) *Russell Reynolds Associates*, Harvard Business School: Boston, Case No. 100-039.

Khanna, T. and Palepu, K.G. (1997) 'Why focused strategies may be wrong for emerging markets', *Harvard Business Review* **75**(4): 41–51.

Khanna, T. and Palepu, K.G. (1999) 'Policy shocks, market intermediaries, and corporate strategy: evidence from Chile and India', *Journal of Economics and Management Strategy* **8**(2): 271–310.

Khanna, T. and Palepu, K. (2000a) 'Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups', *Journal of Finance* **55**(2): 867–891.

Khanna, T. and Palepu, K. (2000b) 'The future of business groups in emerging markets: long-run evidence from Chile', *Academy of Management Journal* **43**(3): 268–285.

Khanna, T. and Palepu, K. (2002) *Multinationals as Global Intermediaries*, Harvard Business School: Boston, Harvard Business School Note No. 703-428.

Khanna, T. and Rivkin, J.W. (2001a) 'Estimating the performance effects of networks in emerging markets', *Strategic Management Journal* **22**: 45–74.

Khanna, T. and Rivkin, J.W. (2001b) *The Structure of Profitability Around the World*, Harvard Business School: Boston, Working Paper No. 01-056.

Kogut, B. (1985a) 'Designing global strategies: comparative and competitive value-added chains', *Sloan Management Review* **26**(4): 15–28.

Kogut, B. (1985b) 'Designing global strategies: profiting from operational flexibility', *Sloan Management Review* **27**(1): 27–38.

Kogut, B. and Zander, U. (1993) 'Knowledge of the firm and the evolutionary theory of the multinational corporation', *Journal of International Business Studies* **24**(4): 625–645.

Lang, L. and Stulz, R. (1993) 'Tobin's q, corporate diversification, and firm performance', *Journal of Political Economy* **102**: 142–174.

Lehrer, M. and Asakawa, K. (1999) 'Unbundling European operations: regional management and corporate flexibility in American and Japanese MNCs', *Journal of World Business* **34**(3): 267–286.

Leamer, E.E. and Levinsohn, J. (1995) 'International Trade Theory: The Evidence', in G.M. Grossman and K. Rogoff (eds.) *Handbook of International Economics*, Elsevier Science: Amsterdam, pp. 1339–1394.

Levitt, T. (1983) 'The globalization of markets', *Harvard Business Review* **61**(3): 92–102.

Lewin, A.Y., Long, C.P. and Carroll, T.N. (1999) 'The coevolution of new organizational forms', *Organization Science* **10**(5): 535–550.

London, T. and Hart, S. (2003) *Reinventing Strategies for Emerging Markets: Beyond the Transnational Model*, University of North Carolina: Chapel Hill, Working Paper.

Martinez, J.I. and Jarillo, J.C. (1989) 'The evolution of research on coordination mechanisms in multinational research', *Journal of International Business Studies* **20**(3): 489–514.

Martinez, J.I. and Jarillo, J.C. (1991) 'Co-ordination demands of international strategies', *Journal of International Business Studies* **22**(3): 429–444.

McGahan, A.M. and Porter, M.E. (2002) 'What do we know about variance in accounting profitability?', *Management Science* **48**(7): 834–851.

Milstein, M. and Hart, S. (2002) *Corporate Initiatives to Serve Poor Markets as a Driver for Innovation and Change: A Longitudinal Study*, National Science Foundation: Washington, DC.

Montgomery, C. (1994) 'Corporate diversification', *Journal of Economic Perspectives* **8**(3): 163–178.

Narayanan, V.K. and Fahey, L. (2001) 'Macroenvironmental Analysis: Understanding the Environment Outside the Industry', in L. Fahey and R.M. Randall (eds.) *The Portable MBA in Strategy*, 2nd edn, Wiley: New York, pp: 189–214.

Nonaka, I. and Takeuchi, H. (1998) 'A Theory of the Firm's Knowledge-Creation Dynamics', in A.D.Chandler Jr., Ö. Sölvell and P. Hagström (eds.) *The Dynamic Firm: The Role of Technology, Strategy, Organization, and Regions*, Oxford University Press: Oxford, pp: 214–241.

Paterson, S.L. and Brock, D.M. (2002) 'The development of subsidiary-management research: review and theoretical analysis', *International Business Review* **11**(2): 139–163.

Peteraf, M. (1993) 'The cornerstones of competitive advantage: a resource based view', *Strategic Management Journal* **14**(3): 179–191.

Peng, M. and Luo, Y. (2000) 'Managerial ties and firm performance in a transition economy', *Academy of Management Journal* **43**(3): 486–501.

Pike, K.L. (1954) *Language in Relation to a Unified Theory of the Structure of Human Behavior*, Mouton: The Hague.

Porter, M.E. (1980) *Competitive Strategy*, The Free Press: New York.

Porter, M.E. (1985) *Competitive Advantage*, The Free Press: New York.

Porter, M.E. (1986) 'Competition in Global Industries: A Conceptual Framework', in M.E. Porter (ed.) *Competition in Global Industries*, Harvard Business School Press: Boston, pp: 15–60.

Porter, M.E. (1996) 'What is strategy?', *Harvard Business Review*, Reprint 96608, November 1996.
Prahalad, C.K. and Doz, Y.L. (1987) *The Multinational Mission: Balancing Local Demands and Global Vision*, Free Press: New York.
Prahalad, C.K. and Hammond, A. (2002) 'Serving the world's poor, profitably', *Harvard Business Review* **80**(9): 48–57.
Prahalad, C.K. and Hart, S. (2002) 'The fortune at the bottom of the pyramid', *Strategy and Business* **26**: 2–14.
Prahalad, C.K. and Lieberthal, K. (1998) 'The end of corporate imperialism', *Harvard Business Review* **76**(4): 68–79.
Rajan, R.G. and Zingales, L. (1998) 'Financial dependence and growth', *American Economic Review* **88**(3): 559–586.
Root, F.R. (1987) *Entry Strategies for International Markets*, Lexington Books: Lexington, MA.
Rugman, A.M. (2000) *The End of Globalization*, Random House: London.
Rugman, A.M. and Verbeke, A. (2001) 'Subsidiary-specific advantages in multinational enterprises', *Strategic Management Journal* **22**(3): 237–250.
Ruigrok, W. and Wagner, H. (2003) 'Internationalization and performance: An organizational learning perspective', *Management International Review* **43**(1): 63–84.
Rumelt, R.P. (1991) 'How much does strategy matter?', *Strategic Management Journal* **12**(3): 167–185.
Sachs, J. (1998) 'Helping the world's poor', *The Economist*, (14 August) 17–20.
Schmalensee, R. (1985) 'Do markets differ much?', *American Economic Review* **75**: 341–351.
Schmalensee, R. (1989) 'Inter-Industry Studies of Structure and Performance', in R. Schmalensee and R. Willig (eds.) *The Handbook of Industrial Organization*, Vol. 2, North-Holland: Amsterdam, pp. 951–1009.
Spender, J.C. (1996) 'Making knowledge the basis of a dynamic theory of the firm', *Strategic Management Journal* **17**(1): 45–62.
Spulber, D. (1996) 'Market microstructure and intermediation', *Journal of Economic Perspectives* **10**(3): 135–152.
Tallman, S. (2001) 'Global Strategic Management', in M. Hitt, R. Freeman and J. Harrison (eds.) *The Blackwell Handbook of Strategic Management*, Blackwell Publishers: Oxford.
Vernon, R. (1966) 'International investment and international trade in the product cycle', *Quarterly Journal of Economics* **80**(2): 190–207.
Vernon, R. (1992) 'Transnational corporations: where are they coming from, where are they headed?', *Transnational Corporations* **1**(2): 7–35.
Von, Hippel E. (1988) *Sources of Innovation*, Oxford University Press: Oxford.
Werner, S. (2002) 'Recent developments in international management research: a review of 20 top management journals', *Journal of Management* **28**(3): 277–305.
Wernerfelt, B. (1984) 'A resource-based view of the firm', *Strategic Management Journal* **5**(2): 171–180.
Williamson, O. (1985) *The Economic Institutions of Capitalism*, Free Press: New York.
Yip, G.S. (1995) *Total Global Strategy: Managing for Worldwide Competitive Advantage*, Business School Edition. Englewood Cliffs, NJ: Prentice-Hall.

About the authors

Joan Enric Ricart is Associate Dean for research and the doctoral program and chairman of the general management department at IESE Business School, University of Navarra. He holds Doctoral Degrees in Industrial Engineering (Universidad Politécnica de Catalunya, 1982), Managerial Economics (Northwestern University, 1984), and Economics (Universidad Autónoma de Barcelona, 1985). He is President of the European Academy of Management and Associate Editor in Chief for JIBS.

Michael Enright is the Sun Hung Kai Professor of Business Administration; head of the Economics, International Business, and Strategy Group; and director of the Asia-Pacific Competitiveness Program at the University of Hong Kong. He received his A.B., MBA, and Ph.D. from Harvard University and taught at the Harvard Business School before moving to Hong Kong.

Pankaj Ghemawat is the Jaime and Josefina Chua Tiampo Professor of Business Administration at Harvard University's Graduate School of Business Administration and Head of the Strategy Unit. He holds an A.B. in Applied Mathemetics and a Ph.D. in Business Economics from Harvard University, where he has taught since 1983. In 1991, he was appointed the youngest full professor in the Business School's history.

Stuart Hart is the S.C. Johnson Professor of Sustainable Global Enterprise at Cornell University's Johnson School of Management. He is also Professor of Management and Founding Director of the Center for Sustainable Enterprise at the University of North Carolina's Kenan-Flagler Business School. He has received numerous honors and awards for his work in the area of sustainable enterprise, including the 1997 McKinsey Award for Best Article in the Harvard Business Review and the 2001 Moskowitz Prize for outstanding research in the field of socially responsible investing.

Tarun Khanna is Professor and Novartis Fellow at the Harvard Business School, where he has been a member of the Strategy group since 1993. Bachelor of Science in Engineering (Electrical Engineering and Computer Science) degree, *summa cum laude*, Phi Beta Kappa, from Princeton University, and Ph.D. in Business Economics from Harvard University. He is course head for the required Strategy course in the MBA program and teaches in executive education programs worldwide. He is a Departmental Editor for JIBS.

Accepted by Arie Lewin, Editor in Chief, 12 February 2004. This paper has been with the author for two revisions.